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Ministry of Transportation

## **A NEW PARTNERSHIP TO REVITALIZE BC RAIL**

### **BC Rail: A vital part of our economic engine**

BC Rail is Canada's third-largest railway as measured by revenue and continuous track network. It operates exclusively within British Columbia and has interline connections to all rail-served points within North America. The BC Rail network consists of 2,315 route-kilometres and 740 kilometres of industrial, yard and track sidings throughout the province.

The rail network consists of a 1,577-kilometre main line from North Vancouver to Fort Nelson, plus branch lines to Mackenzie, Dawson Creek, Tumbler Ridge, Fort St. James and Takla.

BC Rail's fleet currently includes approximately 120 locomotives and 9,000 rail cars.

Approximately 73 per cent of BC Rail's total revenue is generated by the transport of forest products, including lumber, pulp, woodchips, logs, oriented strand-board, plywood and veneer.

Economic growth, particularly in B.C.'s north and interior, depends on a long-term, sustainable freight-rail system to carry goods to markets throughout North America and to our trade gateways. Resource industries require responsive, affordable and integrated rail transport.

B.C.'s rail network must be strengthened to better serve the economic interests of British Columbians while effectively competing with other transportation modes. This requires renewed capital investment and new approaches to build and serve an expanding customer base.

### **The need for change**

At the provincial Transportation Congress in September 2002 and the following Transportation Conference held in Prince George in November, mayors, shippers, communities and customers called for changes to BC Rail. Their principal concerns were the need for improved services, more competitive rates and a better-integrated freight-rail system, with increased capital investment to support economic development and community revitalization. They expressed their willingness to seek out private-sector investment to secure those objectives.

BC Rail has cost taxpayers \$857 million in asset write-offs in the past 15 years, on top of its current debt of \$502 million. This ongoing debt burden effectively amounts to a subsidy of BC Rail by taxpayers, and has contributed to declining competitiveness and deterioration of services. The corporation is now paying over \$30 million a year, and roughly half of its operating income, to debt servicing.

Under the current model, prospects for profitable revenue growth are limited due to increased competition, a shrinking customer base, and limited opportunities for further cost reductions.

BC Rail's freight railway saw improved financial performance in 2002. However, this was not a typical year, as many lumber mills increased production to combat the negative impact of the U.S. softwood lumber duty. Moreover, the recent loss of northeast coal traffic has put a further strain on BC Rail's revenues and market share. In 1997, coal traffic from the two mines near Tumbler Ridge accounted for 19 per cent of BC Rail's freight revenue. In April 2003, the last of the northeast coalmines closed, ending BC Rail's only efficient unit train operation.

While the 2002 financial improvement was positive, it does not address the fundamental debt burden that threatens the railway, and the significant, ongoing need for capital investment. None of the operating profit was used to reduce BC Rail's debt.

### **Responding to community concerns and input**

The government is responding to the requests of communities and resource industries for revitalized, sustainable and strengthened rail service. On May 5, the government convened meetings of mayors and key shippers from rail communities to provide input developing a request for proposals and establish criteria for evaluating proposals. They called for:

- Continued public ownership of the railway rights-of-way, rail bed and track.
- Sustainability – the proposal must promote a robust and well-maintained transportation infrastructure that supports long-term economic development and diversification of B.C. communities.
- Competitiveness – proposals must recognize industrial customers' desire for competitive freight-rail services and rates while providing integrated North American access to preferred markets and carriers for interline rail shipments.
- Growth opportunities – any proposal needs to accommodate access to the railway line for third-party passenger rail services on reasonable economic terms and identify new opportunities for freight-rail services.
- Community benefits – a proposal should demonstrate how it will benefit key groups – such as employees, communities and First Nations – and ensure continuation of the rail shuttle service between D'Arcy and Lillooet.

### **A new model to revitalize rail services**

The province will improve the province's rail transportation system through a two-stage process to identify and secure a private-sector investor for the operations of BC Rail. The new partnership will provide the following benefits for customers and communities:

- 1) Public ownership of the BC Rail rail beds, railway rights-of-way and tracks.

The province will retain ownership of all lands related to railway operations, including rights-of-way, rail bed and tracks, and enter into an arrangement with a new investor to operate the freight-rail business, including a long-term lease arrangement for use and maintenance of the track.

2) More competitive rates.

By providing more efficient management and operations, along with new investment for capital improvements, the new operator will help to strengthen BC Rail's profits and reduce financial pressures from accumulated debt-servicing costs. Better access to other rail lines and modes of transportation will also help increase customers and provide a more competitive rate structure.

3) A better-integrated rail network.

Railway's advantages in terms of economy and efficiency become significant with longer haul distances. In order for freight-rail services to remain competitive, they must be able to offer customers improved service that integrates with other modes of transportation. A private operator can bring the expertise and access to rail lines throughout North America.

4) Improved ability to get B.C. products to markets throughout North America and beyond.

As a result of a more competitive rate structure and better-integrated rail network, shippers and customers will be able to move products more effectively and efficiently to markets, ultimately resulting in reduced operating costs for businesses, increased growth, and new economic opportunities for the workers and communities that depend on their operations.

5) New private-sector investment for capital improvements like rail cars, sidings, loading facilities and rail lines.

Long-overdue capital improvements will help to strengthen the BC Rail network and ensure more timely, efficient and competitive services.

6) Economic development and revitalization of BC Rail-dependent communities.

As freight rail becomes a viable alternative for an expanding base of resource, industrial and commercial customers, the result will be more business opportunities, more jobs and new economic diversification and growth in rail-dependent communities.

7) No new public debt and no further risk to taxpayers.

In return for assuming the operations and management of BC Rail's freight-rail service, the new operator will also assume all financial risk, protecting taxpayers from further debt increases. Moreover, capital improvements will be made with new private-sector investment, ensuring no new public debt for taxpayers.

8) All existing rail corridors are maintained under public ownership.

As publicly owned assets, all existing rail corridors will be maintained under the new partnership.

**Arrangement must guarantee competitive service and value for the province**

All proposals will be carefully evaluated to ensure that:

- Shippers' concerns for competitive service, rates and access to markets and interline carriers of their choice are addressed.

- A plan is put in place to deal effectively with key stakeholder groups like employees, communities and First Nations.
- The proposed transaction provides maximum value-for-money for taxpayers while delivering significant improvements to rail services.

### **The public interest will be protected**

Any agreement will have legally binding provisions to protect the public interest should specific sections of rail line be abandoned.

- Third-party passenger train operators must be accommodated through access to the BC Rail network on reasonable commercial terms.
- The rail-shuttle service between D'Arcy and Lillooet, in partnership with the Seton Lake Indian Band, must be continued.

### **Evaluation and time frame**

Government has appointed a committee to oversee the request-for-proposals process, evaluate proposals and recommend a qualified private-sector proponent for further negotiation.

The evaluation committee has four members:

- John McLernon, chairman of the board, BC Railway Co.
- Brian Kenning, board member, BC Railway Co.
- Chris Trumpy, deputy minister, Ministry of Provincial Revenue.
- David Morhart, assistant deputy minister, Ministry of Finance.

The time frame for the process is as follows:

#### **May 2003**

- Process initiated to solicit expressions of interest from qualified candidate bidders.

#### **Early Summer 2003**

- Short list of qualified private-sector proponents identified.

#### **Late Summer 2003**

- Proponent recommended for final negotiations.

#### **By end of 2003**

- Conclusion of final agreement.

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Media        Shawn Robins  
contact:     Director of Communications  
               250 387-7787